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SUBJECT: ASIAN DEVELOPMENT BANK DIRECTOR LAYS OUT HIS PRIORITIES IN  
KAZAKHSTAN

REF: (A) ASTANA 2086 (B) ASTANA 2095

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY. On October 24, Asian Development Bank (ADB) Country Director Stephen Wermert briefed the Ambassador on ADB's current priorities in Kazakhstan, touted the Central Asia Regional Economic Cooperation Program and the Foreign Investment Council, commented on the management and strategy of AES corporation, and assessed the government's response to the current financial crisis.  
END SUMMARY.

ADB FOCUS IS ON BANKING AND INFRASTRUCTURE

13. (SBU) During an introductory call with the Ambassador on October 24, ADB's Wermert, who has been in Kazakhstan for two and a half years and also serves on the Regional Management Team of ADB's Central and West Asia Department, informed the Ambassador that Kazakhstan's level of GDP per capita excludes the country from receiving low-margin loans from ADB. "Loans will not be a big business for ADB in Kazakhstan," he said. Nevertheless, Wermert disclosed that ADB is prepared to make its first loan to Kazakhstan in five years for a major highway project that would reach to western China. According to Wermert, the ADB's focus in Kazakhstan will be on private-sector development in two main areas: support to the banking industry, and private infrastructure projects in areas such as water, electricity, and transportation, based on the "Build-Own-Operate-Transfer" model. In banking, Wermert confided that ADB's largest exposure to banks worldwide is in Kazakhstan, "even greater than in China or India." In infrastructure, he mentioned that the Government of Kazakhstan plans to conduct a competition to build a new coal-fired power plant in the Balkhash region. According to Wermert, Kepco (Korea), Datan (China), and

Matsui (Japan) will submit competing bids for a 75% stake in the power plant. ADB considers that project its number one priority. (NOTE: On October 13, President Nazarbayev was reported as saying, "We have talked much about the construction of electric power stations in Balkhash and in Kostanay, about the expansion of Ekibastuz GRES (hydroelectric distribution station), hydro power stations, and power transmission lines. The problem of power engineering should be tackled. It is time to move from words to action. This problem could slow down the entire country's economic development." END NOTE).

#### CENTRAL ASIA REGIONAL ECONOMIC COOPERATION

¶4. (U) Wermert touted the Central Asia Regional Economic Cooperation (CAREC) Program, initiated in 1997. (NOTE: The CAREC Program operates in eight countries: Afghanistan, Azerbaijan, the People's Republic of China (with a focus on the Xinjiang Uygur Autonomous Region), Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan. END NOTE.) To date, CAREC has focused on financing infrastructure projects and improving the policy environment in four areas: transport, energy, customs, and trade. For Kazakhstan, the World Bank has the lead on energy issues (mostly in the power sector), the Islamic Development Bank (IDB) has the lead on trade, and the European Bank for Reconstruction and Development (EBRD) has the lead on transportation. ADB's CAREC Unit (CARECU) has served as the CAREC Program Secretariat since March 2000.

#### THE FOREIGN INVESTMENT COUNCIL

¶5. (SBU) Wermert briefed the Ambassador on the Foreign Investment Council, a high-level body comprising 24 international companies in Kazakhstan that meets twice annually and is chaired by President Nazarbayev. He said that the EBRD President flies in from London to attend and co-chair the meetings, along with CEOs or executive vice

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presidents from the companies. A major topic of discussion at the June meeting was the investment climate in the power sector, while the next meeting in December is expected to focus on Kazakhstan's local-content requirements. The Ambassador suggested that there was a natural synergy between the Foreign Investment Council and the new Public-Private Economic Partnership Initiative (PPEPI), since many of the issues and key players are likely to be the same. Wermert agreed that the PPEPI could help to identify issues that could be raised with the President at the Foreign Investment Council.

#### AES COULD USE AN IMAGE UPGRADE

¶6. (SBU) To support the development of Kazakhstan's power sector, ADB considered making a loan to AES before it sold the GRES-1 coal-fired power plant in Ekibastuz to Kazakhmys (see ref A). Wermert was directly involved in the negotiations and shared his opinions about AES's management and conduct with the Ambassador. He said, "An image upgrade for them would be useful" because they have not been very successful in the region overall, noting AES's forced withdrawal from the Georgia market and inability to enter the Russian market. Wermert was surprised that AES did not distance itself more forcefully from a negative June 2 Forbes article and opined that AES's "Kazakhstani entity appears to operate independently of the home office." He speculated that this was due to the fact that AES's Kazakhstan operations do not require regular infusions of cash payments. Wermert also suggested that AES "take a more pro-active approach" to investing in Kazakhstan's infrastructure and long-term development. He said that the public impression of AES is similar to that of Western extractive companies: they utilize Kazakhstan's natural resources to turn a profit, which they use to pay internal dividends, and do not invest in Kazakhstan's future growth. Noting that AES's corporate strategy includes a strong emphasis on alternative energy, Wermert chided their Kazakhstan office for not doing more in this area. "Renewables are very popular in Kazakhstan," he noted. "AES should be out in front on this issue, even if it won't be commercially viable for several years."

#### KAZAKHSTAN'S RESPONSE TO THE FINANCIAL CRISIS

17. (SBU) When asked how he thought Kazakhstan had responded to the current financial crisis, Wermert said, "Their performance has been quite good." He noted, for example, that the government acted quickly to provide liquidity to banks that suffered when the Eurobond markets closed. Wermert did, however, raise two concerns about Kazakhstan's response to the crisis: (1) whether Kazakhstan's banks are properly and transparently disclosing the quality of their assets; and (2) whether the new Samruk-Kazyna National Welfare Fund has the management expertise and financial practices necessary to make sound, long-term decisions. He suggested the government was slow to set up Samruk-Kazyna and recommended that they recruit a "mature, professional candidate" from the United States to manage it. According to Wermert, Samruk-Kazyna's newly-appointed Management Board Chairman, Kairat Kelimbetov, is trusted by President Nazarbayev, but "he doesn't know how to run this kind of an organization." Wermert had a higher opinion of Kelimbetov's new deputy, Arman Dunayev, former head of the Kazyna Sustainable Development Fund, which was merged with the state-owned Samruk holding company to form Samrum-Kazyna. "Dunayev well understands the financial industry," said Wermert, "and we can channel our advice through him." (See ref B for the World Bank's more pessimistic view of Samruk-Kazyna.)

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